August 7, 2001

Madelynne L. Brown
Assistant Director
Illinois Department of Insurance
100 West Randolph, Suite 15-100
Chicago, IL 60601

Dear Ms. Brown:

The members of the "Insurance Caucus" that took part in the Illinois Assembly meetings July 10 – 12, 2001 addressing the issue of covering the uninsured citizens of Illinois submit the following response paper for consideration.

The deliberations of the Illinois Assembly provided the promise of bringing the issue of the uninsured into the spotlight. As representatives of the insurance industry and the agents and brokers who market and sell its products, we have long struggled with this issue. Given this, we believe that our contribution to the Illinois Assembly at this point is a thoughtful response paper. We believe that a vote to prioritize the strategies would mean far less than a discussion of the issues and possible solutions.

The representatives of the Illinois insurance industry and insurance agents and brokers believe that the answer to solving the plight of the uninsured in Illinois is found in a strong, competitive private health insurance market fostered by government cooperation. The current system is employer-based. Since nine in ten insured Americans receive health insurance benefits through their employer, according to the Health Insurance Association of America, any reform of the market to increase access should preserve and build upon the current employer-based delivery system where possible.

Solutions that hold promise are those that promote a competitive market and foster development of new affordable health insurance products. We support private insurance market solutions for more affordable products where feasible and believe in lessening regulations proven to provide little value to the consumer, providing financial incentives for employers and individuals, and molding incentives for insurers and provider groups to work together in certain areas will prove more viable in both the near and long term future. Through a healthy, competitive market, consumers are able to access efficient and responsive products and mechanisms at affordable rates.

Recommendation: Overall we support efforts that encourage health insurance carriers to bring new innovative products to the marketplace. By streamlining current legislative and regulatory and approval requirements for insurance products, carriers would have an incentive to develop a new generation of products to meet the unique needs of this population. For example, we need to look at a "fast-track" approval mechanism, offering options to differentiate employers with 10 or less employees, etc. Our caucus agrees this will provide assistance to the target populations discussed at the Illinois Assembly.

Comments: We want to take this opportunity to present some research on how our recommendation will affect certain target populations. According to research conducted by The Commonwealth Fund, "About 24 million U.S. workers, often employees of small firms, have no health insurance. Together with their families, these "working uninsured" comprise the vast majority of all uninsured people in this country." [1] According to the 1997 CPS, about a quarter of the uninsured are self-employed or work in firms with 10 or fewer employees. Therefore, it makes sense to understand the reasons they lack insurance coverage and concentrate our efforts on addressing those specific obstacles.

The Kaiser Family Foundation/Health Research and Educational Trust *2000 Annual Employer Health Benefits Survey* found that three-quarters of small employers (3-199) do not offer coverage due to high premiums. Studies indicate that small businesses are least likely to offer health insurance to their employees, often due to costs. Even when employers do offer coverage, many employees decline it because they cannot afford the premiums or they are young and healthy and do not feel it is necessary. Nationally, around 2.5 million individuals turned down coverage offered by their employers in 1997.[2] The Kaiser survey found that the take-up rate for employees offered insurance by their employer ranges from 76% to 83%. The take-up rate increases as the size of the firm increases. The sole exception to this statement is among jumbo firms (1,000-4,999 workers) where the rate drops from 83% to 79%. Sadly, the Midwest lags behind the rest of the country on take-up rates. Even in the government sector, take-up rates are not 100%. State and local government workers cover about 84% of their workers. The government sector employees take-up rate is 94%.

The insurance market has the potential to affect change by developing new and distinct products that reach out to employers and their employees. More flexible plan designs with varying cost sharing schemes (i.e., high deductibles, etc.) could provide more affordable and attractive options that better meet their unique health care needs. Digital health plans that bring more choice and flexibility and less costs to consumers are also beginning to be offered in the market place and “dependent-only” or other target population products would fill many holes. As these types of innovative products come to market and are made available to consumers, we believe they could help minimize some of the barriers facing the working uninsured today.

Recommendation: We also support limited State incentives to employers and individuals to target certain populations.

Comments: We support a limited tax credit assistance program to encourage employers to offer health insurance benefits to individuals to take part in group health plans and creating a premium assistance program for low –income working adults and young adults who meet financial requirements. By enrolling employees in private sector programs through their employers, the employees become more knowledgeable about private sector insurance system and stronger ties are developed linking them into the world of work. Every effort that can be made to equate work with a better lifestyle and better economic outcomes through wages and benefits achieves broader societal goals than a government health program can achieve.

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[1] Silow-Carroll, S., Waldman, K., & Meyer J (2001, February). "Expanding Employment-Based Health Coverage: Lessons From Six State and Local Programs. The Commonwealth Fund.

[2] See Footnote 1.

Tax credits could improve affordability and increase access to private group health insurance in three key groups: 1) small businesses with high risk individuals; 2) start-up businesses; and 3) low income employees. Under such a tax credit program small businesses offering group benefit plans to their employees would be protected from rising health coverage costs due to catastrophic illnesses by some tax offset. Additionally, start-up businesses would see less initial capital depleted by health benefit plan establishment and can begin to attract potential employees. Finally, the low-income employees would have a financial incentive to participate in employer offered group health plans through a return in taxes.

Offering premium assistance for working young adults who meet a certain financial threshold to assist them in paying their employee contributions would provide greater access to private health insurance coverage with less cost to the government and taxpayers. It would also minimize any incentives for individuals who are currently enrolled in employer-sponsored coverage to decline that coverage and enroll in a state-subsidized program.

In reviewing some of the literature the Department made available on its website, it appears that when young adults are offered health insurance coverage, they are only *slightly* less likely to enroll in coverage than their older counterparts, meaning they would like coverage.[3] This study, *"Health Insurance: On their own: Young adults living without health insurance",* goes on to state that 17 percent, or close to one-fifth of uninsured young workers are offered coverage, but decline it, the most common reason given is money. Further, low-wage employers who offer coverage tend to require employees to make larger dollar contributions.[4] These findings suggest that more, not less, emphasis on the value of work place benefits should be considered. Young adults who see a job as merely a paycheck are less likely to view their job as a stepping-stone to financial independence and personal growth.

A premium assistance program for low-income individuals in the workplace could considerably improve their ability to purchase coverage. If coverage is available to them through their employer, it makes more sense to maintain employer-based coverage rather than enrolling them in a state-run program. This was an important consideration in the KidCare Rebate program. That program recognized that providing assistance to families to pay for their employer-based insurance provided families an opportunity to maintain continuity of care among a network of medical providers. Also, it bypassed the stigma discussed in the Assembly's focus groups of a public assistance program. If you consider the average monthly premiums compared with current employee contribution levels, there are potentially significant savings to the state if it adopts a premium assistance program as opposed to a total buy-in program for all young adults. For example, according to the Medical Expenditure Panel Survey (MEPS) -- IC Employer Survey for 1998, the average monthly premium for a typical Illinois employee in a firm of any size is $463.91 for family coverage and $181.65 for single coverage. The monthly premiums for firms with 0 to 50 employees are greater at

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[3] Quinn, K., Schoen, C. & Buatti, L. (2000, May). Health Insurance: On their own: Young adults living without health insurance. The Commonwealth Fund. [On-Line]. Available HTTP: http://www.cmwf.org/programs/insurance/quinn_ya_391.asp [2001, June 8]

[4] Quinn, K., Schoen, C. & Buatti, L. (2000, May). Health Insurance: On their own: Young adults living without health insurance. The Commonwealth Fund. [On-Line]. Available HTTP: http://www.cmwf.org/programs/insurance/quinn_ya_391.asp [2001, June 8]

$484.28 for family coverage and $198.85 for single coverage. The average monthly employee contribution is higher for firms with 50 and fewer employees, ranging from $35.80 for single coverage to $148.21 for family coverage. The survey also indicates that lower wage employees tend to have higher contribution levels.[5]

Using these averages as an illustration, the state would only pay $35.80 a month for a single employee of a small employer with 50 or fewer employees (the employee's contribution level) as opposed to $198.85 per month to fully subsidize the entire premium through a state-run program. The table below illustrates the potential annual savings to the state for one person with single coverage or family coverage employed by a small employer, using the premium estimates provided in the MEPS survey.

Type of Coverage	Avg. annual premium	Estimated annual state costs for premium assistance	Estimated annual state costs for full subsidy	Estimated annual savings to the state
Single Coverage	$2,386.20	$429.60	$2,386.20	$1,956.60
Family Coverage	$5,811.36	$1,778.52	$5,811.36	$4,032.84

As illustrated, providing premium assistance to working uninsured individuals would require the state to pay only a portion of the premium, rather than fully subsidizing the cost of an entire premium. This appears to be a more cost-effective and practical approach to reaching this population of the uninsured.

Conclusion

In addition to the above recommendations, we wish to make three important points as you consider the State's options.

First, we strongly caution against a State government buy-in approach or creating more "low-cost" risk pools. This approach has the threat of attracting individuals already participating in private group insurance or encouraging them to turn down coverage by their employer. This could place a particular burden on small employers. If small employer groups lose young and healthy members from their plans to a state subsidized program, it will be more difficult for carriers to balance the costs of unhealthy risks in these groups and ultimately cause an increase in their insurance rates. In a voluntary market when the cost of health care is increasing rapidly across the country, a proportional distribution of low-risk groups helps stabilize the rates for the block as a whole. When the pool of low-risk groups shrinks, the cost for the remaining groups escalate at a faster rate than if the low-risk groups were in the pool. If this occurs, affordable health insurance will be even further out of reach for small employers and their employees in the state.

According to a recent study on the experience of the Health Insurance Plan of California (HIPC), the country's first state-run health insurance purchasing alliance for small firms, "pooled purchasing alone cannot sustainably lower the cost of health insurance enough

[5] Wicks, E. (2000, June). Health Purchasing Coalitions Struggle to Gain Bargaining Clout: Small Size and Lack of Support from Health Plans are Factors. Health Care Financing & Organization Brief.

to increase coverage among small business employees."[6] The study further states "…an examination of the HIPC's experience also raises doubts as to whether pooled purchasing has yielded significant savings relative to options available in the small-group market. It has been reported that the HIPC's initial premiums were lower than those outside the HIPC. More recent data, however, provide no evidence that HIPC rates are still lower."[7]

A recent General Accounting Office (GAO) study of small group purchasing cooperatives found that these arrangements have not been able to enroll sufficient numbers to provide bargaining leverage. Even the Pacific Health Advantage with 144,000 covered lives accounts for only 2% of the small group health insurance market in California. In general, all coops reviewed had less than 5% of the state's market.

Another study on health purchasing cooperatives (HPCs) found that "Virtually all HPCs have lost PPOs, in part because of adverse selection. Not having a PPO option has exacerbated HPCs' problems competing in the small-group market."[8] The study, which evaluated several HPCs around the county, found that when PPOs were sold through HPCs, they only attracted unhealthy or high-risk individuals. Even enrollment in the largest HPCs in California and Florida accounted for only 5 percent of small group enrollment.[9]

The population groups discussed at the Assembly are too large to sustain in a HPC or risk pool setting without moving towards a "single payor system," which we do not support.

Second, any state reforms should be carefully considered so that we do not exacerbate the uninsured population. A study of the uninsured conducted by The Employee Benefit Research Institute (EBRI), also provides insight on state initiatives and their affect on the uninsured. The study used the U.S. Census Bureau's March 1998 Current Population Survey as its basis. The study found that state reform efforts could add to the problem of the uninsured:

- The sole effort among states to decrease the number of uninsured was the establishment of high-risk pools, resulted in only a 1.5% decrease.

- Small group community rating in conjunction with a guaranteed issue requirement increased the probability that an individual will be uninsured by 28.5%.

- Small group rating bands coupled with guaranteed issue increased the probability that an individual will be uninsured by 15.8%.

- Community rating and guaranteed issue requirements in the individual health insurance marketplace increased the probability that an individual will be uninsured by 11.3%.

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[6] Yegian, J., Buchmueller, T., Smith, M., & Monroe, A (2000, September/October). The Health Insurance Plan of California: The First Five Years. Health Affairs.
[7] See Footnote 3.
[8] Wicks, E (2000, June). Health Purchasing Coalitions Struggle to Gain Bargaining Clout: Small Size and Lack of Support from Health Plans are Factors. Health Care Financing & Organization Brief.
[9] See Footnote 5.

- Rating bands with guaranteed issue requirements in the individual health insurance market increased the probability that an individual will be uninsured by 5.1%.

- A mandate that insurance plans cover mental health increased the probability that an individual will be uninsured by 5.8%.

This analysis does much to explain how the numbers of uninsured can vary from state to state.

Third, we are aware of the President's initiative to make the Medicaid program more accessible to uninsured low income Americans. We would caution that any expansion of public programs such as Medicaid, should only be addressed in conjunction with reforming the benefit package provided recipients. Specifically, the State employee, Medicaid and Federal Employee Health Benefit Program (FEHB) benefits do not resemble the private market. As such, in order to expand any public program to cover more people there must be a resource shift away from overly rich benefits to what the market currently provides most employees. While we believe the private market recommendations discussed previously will provide access to health insurance for most Illinois citizens, we acknowledge the federal administration's Medicaid revisions.

In closing, we hope that the Illinois Assembly will advance proposals predicated on promoting innovative free-market initiatives and cost-effective improvements to current government programs. The Insurance Caucus, comprised of the insurance trade associations, insurers, brokers, agents, etc., wants to be a part of this solution and will look forward to continuing our dialogue on these important issues in the future.

Thank you for your careful consideration of our comments.

Sincerely,

Larry Barry, Illinois Life Insurance Council
Elena Butkus & Matthew Napierkowski, Illinois Association of Health Plans
Gary Fitzgerald, Harmony Health Plan of Illinois
Brian Glassman, Health Care Service Corporation
Sharon Heaton, Heaton Agency Inc.
Paul Hilling, Near North Insurance Brokerage, Inc.
Phil Lackman, Professional Independent Insurance Agents of Illinois
Pamela Mittroff, Mittroff Consulting
Michael Murphy, Humana Health Care Plans, Inc.

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Michael Lawrence, SIU
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